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ABSTRACT

Increasing public dissatisfaction with the cost and quality of higher education is creating pressure for fundamental change. Higher education is not as certain to produce a higher standard of living as it used to be, and costs are rising faster than the rate of inflation. Declining state contributions to higher education have shifted the financial burden of running institutions of higher education to students. Many point to higher expenditures on nonacademic student amenities, bloated administrations, and senior faculty who teach few courses and produce little meaningful research. The citizens call for systemic organizational change leveraged by state policymakers. Since increased state funding is unlikely, the challenge for policymakers is how to encourage and reward such fundamental change in the long-term interests of citizens. Alternatives include: cutting funding to encourage containing costs; tying performance standards to funding; consolidating public universities and community colleges; implementing a Total Quality Management type of approach that offers the ethic of continuous improvement and reorients the institutions toward their "customers" (students), while tapping the potential of faculty and staff to shape a more responsive, efficient system of management and instruction; and "learning organizations" in the private sector that offer a new focus for many institutions of higher education. Engagement in organizational change could be a boon for higher education, creating whole new markets and enlivening the education process. Outcomes will ultimately depend on the energy and commitment that institutions bring to the challenge. (Contains 43 footnotes.) (TD)

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The Ivory Tower Under Siege

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State-supported institutions of higher education are coming under increased scrutiny as public concerns about cost and quality escalate. Tuition costs have risen dramatically in response to declining portions of revenue from the state. So too have higher education expenditures. But the revenue picture for higher education is unlikely to change dramatically, and many fear that rising tuition costs are adversely affecting access. In response, policymakers face the difficult challenge of leveraging organizational change from institutions steeped in tradition.

By Michal Smith-Mello
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As the 21st century approaches, the path to economic opportunity is becoming steeper and more fraught with uncertainty. The guideposts of the past are no longer accurate nor reliable. Young and old, we have become acutely aware of how ephemeral even finely honed skills and the economic security they enable can be in an economy undergoing fundamental change. In this transitional economy, higher education no longer offers the comfortable assurance of a high wage job that it once did. Its absence, however, virtually assures a lifetime of low earnings. And the earnings divide along education lines is widening into a gulf.

As a consequence of today's education earnings differential in the United States, far more pragmatic concerns are eclipsing the idealistic and generally accurate perception of higher education as a life-enriching experience. Those who pay for higher education—students, parents and taxpayers—want higher returns on the rather substantial investment higher education now exacts. From the traditional college student newly graduated from high school, to the nontraditional or "new majority"[1] learner, the pursuit of higher education is increasingly driven by economic considerations. When asked to name "very important" reasons for deciding to go to college, the most frequent response (77.3 percent) among college freshmen in the fall of 1995 was "to be able to get a better job." The third most frequent response (72.3 percent) was "to be able to make more money."[2]

The rise of a more pragmatic view of higher education has opened colleges and universities around the nation to previously unthinkable scrutiny and criticism. More educated, better informed and far more demanding consumers have begun to express dissatisfaction with higher education. Today's college students, regardless of age, and their parents want both the education and the services of public schools in particular to be more firmly anchored to the real world. Not surprisingly, they also want what most U.S. consumers have come to expect—quality at a reasonable cost. But, from every indication, citizen/customers are not getting what they want. As Folger and Jones observe, "The gap between customer expectations and institutional priorities is large and growing; the public is seeking something other than what higher education wants to provide."[3] If quality is indeed measured by customer satisfaction, as U.S. business and industry have so convincingly demonstrated, higher education faces an era of dramatic restructuring.

Public opinion polls suggest that the U.S. public wants more than the incremental change it has witnessed in recent years. A national survey conducted by *The Washington Post* prior to the

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[1] Zemsky, R., Oedel, P. (1994). Higher education and the changing nature of the American workforce—responses, challenges and opportunities. *EQW Working Papers*, Institute for Research on Higher Education, University of Pennsylvania.

[2] American Council on Education and University of California at Los Angeles Higher Education Research Institute. (1995) The American freshman: National norms for fall 1995. As cited by The Chronicle of Higher Education. (1996, September 2). *The Chronicle of Higher Education Almanac, 43*, 19.

[3] Folger, J., Jones, D.P. (1993, August). *Using fiscal policy to achieve state education goals*. Denver, CO: Education Commission of the States, 4.

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presidential election found voters more concerned about rising college tuition costs than about crime or the health of the economy. Nearly 60 percent of those polled expressed the belief that escalating tuition is placing a college education beyond the reach of the average American.[4] As Finn and Manno suggest, "Public regard for higher education is ebbing." An estimated 54 percent of Americans express the belief that higher education needs a "fundamental overhaul" in their state.[5]

The obstacles to change, however, are many. Some, for example, suggest that the higher education community remains generally reluctant "to perceive itself as a pathway to the workplace."[6] Part of the disconnection may be attributable to the substance behind the Ivory Tower image—relative isolation from the economic and social fray. In that relative isolation, rigid hierarchies established on frequently debunked criteria continue to inform the organizational life of most colleges and universities. The public and a legion of thoughtful critics want high quality teaching to be a top priority, but slavish adherence to a publish-or-perish dictum remains the dominant standard of quality. Too often, the research this dictum compels is devoid of original thought or broad benefit, a particularly troublesome outcome for public institutions, although private colleges have become so dependent upon government financed student aid that the line between public and private is blurring. Because institutional reward has remained essentially self-referential and consistently distanced from the actual outcomes of higher education, little has changed. As a consequence, leveraging more of what citizens want from higher education means challenging "a thousand years of tradition wrapped in a hundred years of bureaucracy."[7]

A national survey conducted by The Washington Post prior to the presidential election found voters more concerned about rising college tuition costs than about crime or the health of the economy.

Many here and around the nation argue that the obvious remedy for rising tuition and concerns about the quality of public higher education is a dramatic infusion of public money. However, recent history suggests that public coffers cannot satisfy higher education's appetite for growth. While a robust national economy may yield increased state revenues for a time, competition for those dollars is fierce. Today, California dedicates more revenue to corrections than to higher education,[8] a shift in resources that may be a harbinger of things to come in every state. Most agree that dramatic increases in allocations for higher education are unlikely at best. Instead, the "do more with less" scenario of today is unlikely to change in the foreseeable future. As an alternative to dramatic increases in funding, others conclude that states must compel systemic change from institutions of higher education through outright budget cuts or such mechanisms as outcome- or performance-based funding.

The stakes surrounding today's higher education debate are particularly high for Kentucky. Because of the changing earnings-education ratio and the relative undereducation of our population, the Commonwealth could lose rather than gain income ground in the years to come—unless we achieve a dramatic reversal of our education status. While the long-term prospects for improved educational outcomes are significantly brighter due to school reform, the benefits will not be felt for many years to come. In order to reverse a legacy of persistent poverty, net outmigration, and inadequate incomes, Kentucky must elevate the capabilities of more and more of its working-age citizens. Without 21st century skills, Kentucky cannot develop a high skills, high

[4] Sanchez, R. (1996, September 26). College tuition rides up escalator. *The Washington Post*, p. A3.

[5] Finn, C.E. Jr. and Manno, B.V. (1996, April). American higher education: behind the emerald city's curtain. *Hudson Briefing Paper (No. 188)*. Indianapolis, IN: Hudson Institute.

[6] Banta, T. (1995, May 25-27). Remarks from the National Forum on Student Preparation for College and the Workplace: State Higher Education Executive Officers and Education Commission of the States, Denver, Colorado.

[7] Armajani, B., Heydinger, R., Hutchinson, P. (1994, January). *A model for the reinvented higher education system*. Denver, CO: State Higher Education Executive Officers and the Education Commission of the States, 1.

[8] Butterfield, F. (1995, April 12). New prisons cast shadow over higher education. *The New York Times*, p. A12.

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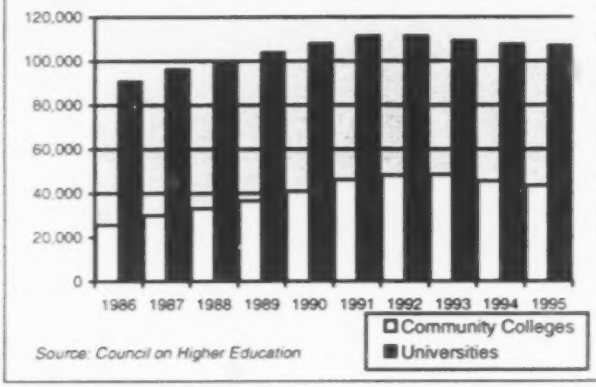
wage economy that will provide opportunity for the future generations in which we have invested enormous hope and resources.

In order to make this critical transition, Kentucky needs a highly effective, efficient system of higher education, one that provides quality—what citizen/customers need and want—at a reasonable cost. The challenge to policymakers is to leverage higher education reform without micromanaging institutions and undermining their inherent strengths. The challenge to institutions of higher education is perhaps more daunting: they must manage growth *and* change in an era of declining revenue.

Slowing Enrollment

FIGURE 11.1
Total Enrollment at State-Supported Higher Education Institutions in Kentucky, 1986-95

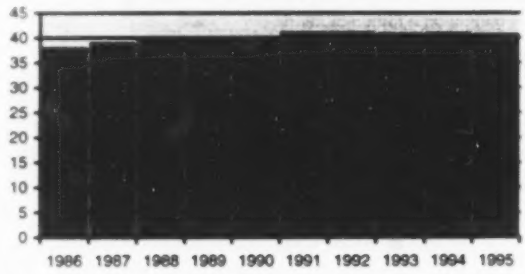


Source: Council on Higher Education

From every indication, Kentuckians, who have historically undervalued education, are responding to the demands of a changing economic context that places a premium on education. In recent years, Kentucky's state-supported system of higher education has witnessed substantial increases in enrollment, a growing proportion of which is comprised of nontraditional students or working-age Kentuckians whose education is so key to the state's future. As Figure 11.1 shows, the pace of enrollment at state-supported institutions of higher education stalled in the early 1990s, while it increased 29 percent over the 1986-1995 decade. University enrollment rose 18 percent and community college enrollment increased 71 percent, suggesting a diffuse awareness of the critical role of education in economic well-being. Kentuckians comprise 88 percent of students at state institutions of higher education.

Today, nontraditional students aged 25 and older comprise a substantial portion of the student population at Kentucky's state-supported institutions of higher education. As enrollment increased over the 1986-1995 decade, so too did nontraditional enrollment, up from 37.8 percent in 1986 to 40.5 percent in 1995. While the percentage of nontraditional students has, as illustrated in Figure 11.2, remained virtually unchanged for five years, 1993 Census data show that nontraditional enrollment in Kentucky (40.7 percent) paralleled the national rate (40.2 percent) for that year.[9]

FIGURE 11.2
Non-Traditional Students at State-Supported Institutions of Higher Education, 1986-1995
(Percent of Students Age 25 and Older)



Source: Council on Higher Education

Kentucky's nontraditional students also demonstrate remarkable persistence. Between 1986 and 1995, the number of degrees awarded to students 25 years or older increased 50 percent. According to the Council on Higher Education, nontraditional students who received degrees from

[9] Chronicle of Higher Education. (1996, September 2). *The Chronicle of Higher Education Almanac*, 17.

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community colleges increased from 54 percent of graduates in 1985-1986 to 71 percent in 1994-1995. The percentage of degrees awarded to nontraditional students at state-supported universities rose from 34 percent during the 1985-1986 academic year to 46 percent during 1994-1995.

While the data on nontraditional students are encouraging, many believe that institutions of higher education can do much more to accommodate the needs of working adults. A recent national survey conducted by Washington State University with support from the University of Kentucky found that a significant majority of Americans are fully aware of their ongoing need for education and retraining; 81 percent of respondents recognize that their success at work is tied to their education.[10] What they do not find are accessible opportunities in higher education that meet their needs. Many who work full-time want courses of study that accommodate their workdays, their busy schedules, and their need to compress learning modules into shorter periods of time. In order to become more responsive to this growing customer base, institutions of higher education must schedule more classes at night, compress courses of study, create more experiential learning environments, and increase distance learning opportunities. As the survey authors note, "Teaching conducted in the traditional campus classroom will not meet the public's demand for tailored educational services."[11]

Interestingly, women in Kentucky, as well as around the nation, are more likely to take advantage of the opportunities higher education has to offer. According to the Council on Higher Education, nearly 88,000, or 58 percent of the 150,499 students enrolled in Kentucky's state-supported system of higher education in the fall of 1995, were female. This represents a gain of 2 percentage points over the 1986-1995 decade. Remarkably, 65 percent of community college students enrolled in the fall of 1995 were women, and 75 percent of all degrees conferred by community colleges during the 1994-1995 year were earned by women. Over the long term, the feminization of higher education may help close the rather substantial earnings gap that remains between men and women in Kentucky. At the same time, it may be indicative of obstacles to participation among men that should be examined and systematically addressed.

Incremental gains in minority enrollment were also made at the state's universities and community colleges. Overall, black student enrollment increased 46 percent over the course of the 1986-1995 decade, from 7,143 to 10,461 students. The portion of the student population comprised of black students increased from 6 percent of those enrolled to 7 percent, which parallels the level of black population in the state. While gains in black enrollment are clearly positive, the significant economic disadvantage that persists in black communities around the state compels concerted attention to issues affecting minority enrollment.

Significantly, higher education enrollment patterns in Kentucky have slowed somewhat in the early 1990s. While some state universities have continued to make steady incremental gains, overall enrollment at state universities and the community colleges declined slightly following a 1992-1993 peak. This downward turn in enrollment may be attributable to a diminishing population of college-age youth; the relative health of the economy, which is enabling broader participation in the workforce; the economic insecurity that nevertheless attends today's economy and discourages the risk of investment in education; and the rising cost of tuition. Regardless of the causes, a fuller understanding of the dynamics of higher education participation is critical in an era when educational attainment has become so strong a determinant of economic well-being.

Discouraging Costs?

Nationally, as well as in Kentucky, many point to skyrocketing tuition costs as a factor contributing to declining enrollments and discouraged students. Concern about tuition costs, which have outpaced and even doubled the rate of inflation in recent years, has reached its highest point

[10] Dillman., D.A., Christenson, J.A., Salant, P., Wagner, P.D. (1995, September). What the public wants from higher education: workforce implications from a 1995 national survey. Pullman, WA: Washington State University Social & Economic Sciences Research Center, 3.
[11] Dillman, et al.

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in 30 years.[12] In August 1996, the U.S. General Accounting Office (GAO) reported that tuition at public, four-year colleges and universities had increased by 234 percent over a 15-year period, from 1980-1981 through 1994-1995, while household income rose at a far more anemic pace of 82 percent, and the cost of consumer goods increased by only 74 percent.[13] Over the same period in Kentucky, tuition rose 235 percent at the Universities of Kentucky and Louisville, 193 percent at the state's regional universities, and 146 percent at the community colleges.

Two factors, the GAO concluded, were most responsible for tuition hikes that bore no discernible relationship to the larger economy—increased reliance on tuition as a source of revenue and rising expenditures. Nationally, per student expenditures outpaced both the consumer price index and the higher education price index (HEPI), which is thought to be a more accurate measure of the goods and services colleges must purchase. Over the period examined by the GAO, however, the HEPI accounted for only about three quarters of the 121 percent increase in per student expenditures.[14]

The GAO found that nationally the rising cost of instruction represented the largest portion (37.1 percent) of the $7,984 increase in per full-time-equivalent student costs over the period examined. In 1993-1994, faculty salaries and staff wages, which did not experience real growth until 1983, represented about 70 percent of average per student instruction costs.[15] Research (18.1 percent) consumed the second largest share of the overall cost increase, and administration consumed the third largest share (16.2 percent).[16] Nationally, the GAO found, administrative expenditures increased 131 percent or 41 percentage points more than the HEPI increased.[17]

In Kentucky, the Council on Higher Education notes in its annual statistical profile of decade-long trends in higher education that the largest increase in employment at state-supported institutions over the most recent decade was in professional nonfaculty posts which increased 53 percent at state universities and 228 percent at the community colleges between the 1986 and the 1995 fall semesters. By comparison, full-time faculty increased 12 percent at state universities and 60 percent at the community colleges. The GAO found that the rise in administrative and academic support costs is generally attributed to intensifying recruitment efforts, expanded financial aid programs, computer support, and the management of cumbersome state and federal regulations. Interestingly, the portion of overall expenditures dedicated to instruction at Kentucky's state-supported institutions actually decreased from 29 percent of total spending to 28 percent.

TABLE 11.1
Revenue by Source
Kentucky State-Supported Institutions
(in thousands)

Source of Revenue	1985-86	% of Total	1994-95	% of Total	% Increase
State General Fund	$441,149	45%	$687,183	37%	55.8%
Tuition and Fees	123,668	13%	309,382	17%	150.2%
Federal	85,729	9%	194,077	11%	126.4%
Other Agency	146,286	15%	276,264	15%	88.8%
Auxiliary/Hospital	179,338	18%	375,551	20%	109.4%
Total Revenue	**$976,170**		**$1,842,458**		**88.7%**

Source: Council on Higher Education

In effect, state-supported institutions of higher education around the nation have continued to spend at an escalating pace, even as their principal source of funding provided dwindling shares of revenue. As shown in Table 11.1, revenue for Kentucky's state-supported institutions of higher education nearly doubled over the most recent decade, while the portion of revenue provided by the state declined. Nevertheless, general fund contributions to the state's eight universities and 14 community colleges represented 14.9 percent of all state expenditures in 1994, the third largest share of the state's budget, behind elementary and secondary education

[12] General Accounting Office (GAO). (1996, August). *Higher education: Tuition increasing faster than income and public colleges' costs.* Washington, DC: US Government Printing Office, 4.
[13] GAO, 18.
[14] GAO, 25-27.
[15] GAO, 29.
[16] GAO, 29.
[17] GAO, 30.

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(47.8 percent) and health and human services (18.9 percent).[18] Over the most recent decade, funding to state universities increased $246 million or 56 percent, from $441 million in 1985-1986 to $687 million in 1994-1995. At the same time, however, expenditures by the state's publicly supported institutions of higher education increased by $808 million or 87 percent, from $962.6 million in 1985 to $1.8 billion in 1994.

The adaptive response to diminishing state responsibility for higher education revenues has been one of cost-shifting rather than cost-cutting. Declining state contributions to higher education, as the GAO notes, have resulted in a substantial shift of the cost burden for running institutions of higher education to students. As the portion of higher education revenue provided by the Kentucky state government declined, from 45 percent to 37 percent over the most recent decade, the portion of higher education revenue met by tuition and fees increased from 13 percent to 17 percent. Overall, revenue generated from tuition increased 150 percent, from $123.7 million in 1985-1986 to $309.4 million in 1994-1995. As a consequence, the ratio of general fund appropriations to tuition changed substantially. Ten years ago, the state contributed $4 for every dollar a student paid in tuition; today the state provides only about $2.50 for every student dollar.[19]

Federal dollars exclusive of student aid have also met an expanding share of higher education revenues in Kentucky, up from 9 percent in 1985-1986, to 11 percent in 1994-1995. Overall, federal funds to higher education in Kentucky rose $108,348 million or 126 percent.[20] Deeper cuts in the already slowing stream of federal funds could not only have an adverse long-term impact on revenue for Kentucky's university system but also on students, who, in the absence of organizational responses to declining revenues, would likely assume part of the added cost burden in the form of higher tuition and fees. And, were federal student loan programs to be cut, as recent congressional budget-cutting initiatives sought to do, the fiscal impact on state-supported universities would be dramatic.

Some, however, argue that federal student loan programs have effectively removed incentives for cost reductions and enabled institutions of higher education, public and private, to avoid painful restructuring.[21] Instead, institutions have simply shifted costs to students, a substantial portion of whom have ready access to federally backed loans. According to U.S. Department of Education surveys, 45.6 percent of all students at four-year public institutions in 1992-1993 reported receiving some type of financial aid.[22] An earlier study by Sutterlin and Kominski at the U.S. Bureau of the Census found that more than half (51 percent) of the nation's 1990-1991 postsecondary students received financial aid from at least one source and that the average aid package for the year stood at almost $3,000 per student.[23] While the decline these surveys suggest may be attributable to different survey methods, it also may be indicative of the level of discouragement rising tuition has engendered.

As a consequence of rising tuition, federal outlays and debt burdens are mounting to record and, some argue, unmanageable heights. Student financial aid, according to the College Board, has now reached an unbelievable $50 billion, an increasing portion of which is in long-term loans that translate into burdensome long-term debts.[24] For many, these debts must be managed during years in which earnings are low and, for young workers, declining.[25] The costs are dis-

[18] Schirmer, P., Childress, M.T. and Nett, C.C. (1996). *$5.8 billion and change*. Frankfort, KY: Kentucky Long-Term Policy Research Center, 10.
[19] Schirmer et al., 12.
[20] Schirmer et al.
[21] Fiske, E.B. (1995, December 12). Aftermath of easy college loans are crushing debt, higher tuition. *Lexington Herald-Leader*, p. A11.
[22] U.S. Department of Education 1992-93 Student Survey as cited by The Chronicle of Higher Education. (1996, September 2). *The Chronicle of Higher Education Almanac, 43*, 14.
[23] Sutterlin, R. and Kominski, R.A. (1994). *Dollars for scholars: Post-secondary costs and financing, 1990-1991*. Washington, DC: US Department of Commerce, 7.
[24] Sanchez, R. (1996, September 26). College tuition rides up escalator. *The Washington Post*, p. A3.
[25] Freeman, R.B. (1996, September-October). Toward an apartheid economy? *Harvard Business Review*, 116.

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couraging and the consequences disturbing, suggests College Board president Donald Stewart, "A college education should help people create a better future, not a deeply mortgaged future."[26]

In addition to the substantial long-term debt that high tuition costs now exact from those who are not fortunate enough to have sufficient personal resources or affluent parents, college costs are effectively discouraging full-time participation and, thus, extending the length of time many young people attend college. Because tuition meets only a portion of actual per student costs, some states have moved to discourage longer periods of enrollment by increasing the cost of tuition to those in programs for longer than four years or by lowering credit requirements. But tuition costs, not malingering students, may be the factor that most discourages timely completion of a degree. According to the National Center for Education Statistics, an estimated 46 percent of full-time college students aged 16 to 24 work,[27] making it more difficult to manage a full course load. As students extend their length of enrollment, their debt burden mounts. Some poor students simply give up while others are so discouraged they never apply.

> *"A college education should help people create a better future, not a deeply mortgaged future."*

Today, the impact of rising tuition on access to publicly supported institutions of higher education is being broadly questioned. As Lemann observes in a *Time* magazine commentary, higher education represents opportunity to citizens, "the central American value."[28] But the dramatic rise in tuition at public universities has effectively "changed the bargain between the citizen and the state."[29] It is a particularly questionable bargain in a state where incomes lag far behind U.S. averages and frequently reside near the bottom of national economic rankings. If, as some studies suggest, the cost of tuition has reached a threshold at which it is blocking access to higher education, it is effectively inhibiting income growth, a consequence that Kentucky can ill afford.

Data released by American College Testing (ACT) in July 1996 suggest that college students are discouraged nationally. Based on institutional data it has collected since 1983, ACT found the college dropout rate had reached its highest level in 13 years while the graduation rate had fallen to its lowest level. Specifically, ACT found the freshman-to-sophomore dropout rate had risen to 26.9 percent at all institutions, up 2.5 percentage points since 1983. While the increase is largely attributable to rising dropouts from private institutions since 1993, the rate for public institutions also has been consistently higher over the years. Between 1983 and 1996, the portion of four-year college students who graduated within five years decreased from 57.5 percent to 53.3 percent.[30] ACT analysts have cited rising tuition rates as a key factor in these observed declines.

In a 1995 RAND study of California's Master Plan for higher education, Shires concludes that the state is experiencing "an access crisis" that is undermining the expressed mission of publicly supported higher education in the state.[31] Rising levels of fees, Shires finds, are routinely "pricing out students who . . . should be served by the state's higher education sector." In effect, tuition hikes are essentially thwarting the plan's established goal of providing access to all who would benefit from higher education. "Unless the price of higher education is reduced to earlier levels, the state will guarantee that a significant proportion of students will be denied access to the state's public undergraduate institutions."[32]

Clearly, access to higher education is influenced by the supply and demand factors in individual states. California faces the prospects of an exploding population and inadequate institutional capacity to meet a likely demand for higher education in the coming years. Future circumstances

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[26] Anonymous. (1996). $100,000.00 and still climbing. [On-line] Available: www.review.com/time/TM5bot.html.
[27] Sanchez, (1996, June 8). College sticker shock: states moving to discount anxiety. *The Washington Post*, p. A1.
[28] Lemann, N. (1996, June 10). With college for all. *Time*, 67.
[29] Lemann.
[30] ACT. (1996, July 9). *College dropout rate reaches new high, graduation rate new low* (news release), Iowa City, Iowa.
[31] Shires, M.A. (1995, January). *The master plan revisited (again): Prospects for providing access to public undergraduate education in California* (draft). Santa Monica, CA: RAND, xv.
[32] Shires, 57.

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are likely to be quite different here in Kentucky, given recent demographic trends, flattening enrollments at public institutions, and an institutional capacity many would argue already generously exceeds demand. Only through ongoing analyses of the factors influencing enrollment and access can the state effectively assess the real impact of the status quo—rising costs to students and taxpayers.

Because a college degree has remained a sound investment over the years, parents and students met the rising cost of tuition without question for a time. In the absence of external pressure, institutions were not forced to reckon forcefully with issues of cost, efficiency or productivity.[33] But recent trends suggest that the near guarantee of an earnings return and the consumer passivity it has engendered may be fading. Many parents, suggests futurist Joseph Coates, are reacting to "the 27-year-old hulking over the refrigerator," still living at home and still jobless or marginally employed in spite of substantial investment in higher education.[34] Indeed, younger workers, particularly young men, have been among the biggest losers in our economy. And between 1994 and 2005, Bureau of Labor Statistics projections suggest job openings for college graduates could fall as much as 300,000 short of the number of college graduates entering the labor force.[35] If these predictions and current trends hold, many college-educated entrants to the labor force will work in low skill jobs at low pay. And public dissatisfaction with higher education will only grow.

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How Much is Enough?

Analyses of Census data and state-level appropriations conducted by Illinois State University's Center for Higher Education suggest that Kentucky's appropriations to higher education are somewhat skewed in their relationship to the income capacity of the state's population. Given the significant educational ground we must close, it may, however, be far less than is needed. The Center's data show Kentucky is currently spending somewhat more for higher education than the national median across two measures. Kentucky ranked 22nd in the nation, spending an estimated $176.93 per capita or more than $3 per person above the national median ($173.37). Kentucky's population is 24th in the nation. In another capacity measure, the Commonwealth ranked 17th in the nation, spending $9.97 per $1,000 of personal income compared to a median of $8.46.[36]

Importantly, these data reflect myriad circumstances. They are indicative of the relative importance given to higher education in a state, the state's population and its wealth. Among those states spending above the median for higher education based on per capita income are some of the nation's poorest (Arkansas, Mississippi, New Mexico, and West Virginia), least populated (Hawaii and Delaware), and most committed to higher education. North Carolina, for example, ranks fifth in appropriations per capita and sixth in spending per $1,000 in personal income, an investment few would argue has not proven its worth. Conversely, states spending the least per capita tend to be populous, high-income states though there are exceptions. Consequently, it is difficult to generalize about higher education spending relative to the capacity of a state's population.

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[33] Finn and Manno, 5.

[34] Coates, J. (1996, July 14-17). Presentation at Future Vision, the Annual Conference of the World Future Society, Washington, DC.

[35] Shelley, K.J. (1996, Summer). 1994-2005: Lots of college-level jobs—but not for all graduates. *Occupational Outlook Quarterly*. Washington, DC: US Department of Labor, 8.

[36] Center for Higher Education, Illinois State University. (1996). Table 7, Rankings of the States on Appropriations of State Tax Funds for Operating Expenses of Higher Education per Capita and per $1,000 Personal Income, FY 95-96. *Grapevine*, 13.

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However, because we are spending beyond the capacity of our population, questions of quality—what Kentuckians are getting for this substantial investment—beg to be addressed. Many argue that the Commonwealth has created far too many institutions with separate, costly and competitive administrations at the expense of quality. The state's doctoral institutions, the University of Kentucky and the University of Louisville, it is argued, have been hindered in their development due to the drain on resources. Conversely, others, including representatives of regional institutions, argue that both universities have failed to achieve programmatic excellence in spite of receiving the lion's share of resources. While quality is measured differently by different entities, how public money is spent and what taxpayers get for the substantial investment they make in higher education are questions that compel the attention of policymakers.

Leveraging Organizational Change

Clearly, the higher education community is experiencing unprecedented political pressure for fundamental change. Here in Kentucky, the Governor has made higher education reform a central focus of his administration. In response, political positions and turf are already being carefully staked. Some argue that the community colleges should be severed from the University of Kentucky and reoriented to achieve a stronger focus on workplace skills. Others view Kentucky's entire system of higher education as top-heavy and overextended, consuming too much revenue for duplicative programs and for territorial institutional expansion in a state that is poor by virtually every traditional measure. As a result, it is argued, resources are diluted, and no institution has the capacity to achieve real excellence. In turn, the social and economic development that a premiere institution might enable remain illusive. In short, Rollin J. Watson, President of Somerset Community College asserts, "Kentucky does not need and cannot afford eight universities."[37]

Certainly, anticipated gains for higher education over the coming biennium will not close lost fiscal ground, and the future is unlikely to yield significant increases in public outlays. In an exploration of the impact of larger trends on the state's budget, Schirmer, Childress and Nett find that in order to maintain the *present* quality of state programs, expenditures will exceed revenues within a few short years, resulting in a structural deficit.[38] Consequently, it is unlikely that Kentucky will achieve improvements in higher education through increased expenditures.

The logical response to mounting fiscal pressures and public demands for change is for institutions of higher education to engage in systemic, organizational change. Higher education may be "years away from knowing what academic versions of TQM (Total Quality Management) will appropriately look like,"[39] as Marchese suggested in 1993, but the urgency that propels it appears to have arrived. The values of processes like TQM offer a solid foundation on which institutionally unique initiatives can be developed. Arguably, adoption of the ethic of continuous improvement alone would dramatically alter higher education. Equally important, however, are the critical goals of reorienting higher education institutions toward their "customers"—students, working adults, businesses, and the public in general—and tapping the full potential of critical human resources, of faculty and staff, who, given the authority to do so, can help shape a more responsive, more efficient system of management and instruction. The ideal outcome, Marchese suggests, is "to remake organizations so they become more focused, disciplined, quick-footed, humane, and competitive."[40]

Ironically, the push to cultivate "learning organizations" in the private sector also offers an important *and* a new focus for many institutions of higher education. As Garvin suggests, a learning organization is "skilled at creating, acquiring, and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights."[41] The stringent test Garvin poses

[37] Watson, R.J. (1996, October 30). Joining the branches of higher education. *Lexington Herald-Leader*, p. A9.
[38] Schirmer et al.
[39] Marchese, T. (1993, May-June). TQM: A time for ideas. *Change*, 25, 10.
[40] Marchese.
[41] Garvin, D.C. (1993, July/August). Building a learning organization. *Harvard Business Review*, 80.

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for a learning organization is that of "changing the way work gets done." Too often, tradition-laden universities and colleges simply would not pass.

For state policymakers, the central questions around higher education are those of how much external pressure will be required to spur systemic change within the higher education community, and what, if anything, policymakers can do to leverage it sooner as opposed to later. Some states have exerted pressure by making dramatic, across-the-board cuts, rather than adopting the prevailing incremental approach. Others, like Kentucky, have put performance standards in place, but because the bottom-line stakes are negligible, they do not appear to be spurring dramatic change in any state. Regardless of the impetus, broad-based institutional commitment to organizational change is arguably the only viable response to new fiscal realities and rising citizen dissatisfaction. Policymakers face the difficult challenge of encouraging and rewarding such fundamental change in the long-term interests of citizens of the Commonwealth.

Conclusion

Clearly, citizen dissatisfaction with the cost and the quality of higher education is creating unprecedented pressure for fundamental change on campuses around the nation. As a consequence, policymakers here and in many states have begun to probe higher education expenditures, policies and practices, and to experiment broadly in an effort to leverage fundamental change. But reforming higher education may be the most difficult political challenge before policymakers. While frequently cautioned about the error of attempting to micromanage higher education institutions, policymakers are simultaneously told that higher education is perhaps the least prepared of all public institutions to manage restructuring and change. Consequently, balancing the interests of citizens with those of institutions poses a formidable challenge.

Indeed, the recent history of higher education has been one of expansion and growth, even in the face of dwindling shares of revenue from state governments. Though the growth in higher education expenditures is attributable to rising enrollment, many argue that the time has come for higher education to do more with less and to do things far differently. Among other things, they point to the drift of higher education expenditures toward a range of nonacademic student amenities, to bloated administrations, to costly remedial help for poorly prepared students, and to senior faculty who teach few courses and produce little meaningful research.

Importantly, engagement in organizational change could prove to be a revolutionary boon for higher education, creating whole new markets and enlivening the education process as never before. Indeed, studies show that interactive computer learning not only enables students to retain more information but to learn more quickly.[42] Outcomes, however, will ultimately depend on the energy and the sincerity of commitment institutions bring to the challenge. It is one of containing costs, of capturing higher levels of efficiency and productivity from faculty and staff, of unleashing the considerable talents of those on the frontlines of higher education, of streamlining management processes, of becoming far more sensitive to the needs of customers, of securing real returns from investments in technology, and of improving competitive position in ways that matter to students and citizens.[43] In short, cost and quality matter a great deal, even at the top of the Ivory Tower. Until these fundamental issues are systematically addressed, the current climate is unlikely to change for higher education.

[42] Oblinger, D.G. (n.d.). Transforming the academy to improve delivery of services: redesign for reallocation. [On-line] Available: ike.engr.washington.edu/news/whitep/technote/hied/oblinger.txt

[43] Oblinger.

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